

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 AID-20 COME-00 EB-11 FRB-02 TRSE-00 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08 CEA-02

AGR-20 DRC-01 /184 W

----- 058986

R 061114Z MAY 74 ZDK
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 4541
INFO AMCONSUL KARACHI
AMCONSUL LAHORE
AMEMBASSY NEW DELHI
AMEMBASSY TEHRAN
AMEMBASSY DACCA

C O N F I D E N T I A L ISLAMABAD 4233

E.O. 11652: GDS

TAGS: PINT, EAID, EIND, PK

SUBJ: BHUTTO ON DOMESTIC POLITICS, DEBT RESCHEDULING AND
PRIVATE INVESTMENT

1. AT THE CONCLUSION OF HIS BRIEFING FOR THE VISITING
WAR COLLEGE GROUP ON MAY 4, BHUTTO ASKED THAT I REMAIN
BEHIND FOR A CHAT. HE CAUGHT ME BY SURPRISE, AS I WAS
UNDER IMPRESSION THAT HE WAS TO LEAVE IMMEDIATELY AFTER
THE BRIEFING FOR LAHORE.

2. BHUTTO LIGHTLY ASKED WHAT I HAD BEEN UP TO SINCE HE LAST
SAW ME IN QUETTA. I REPLIED THAT A GOOD PORTION OF MY TIME
WAS UTILIZED IN TRYING TO KEEP UP WITH HIM AND HIS TRAVELS
AND READ HIS DAILY SPEECHES AND PRESS INTERVIEWS. HE HAD
JUST RETURNED FROM THE NORTH WEST FRONTIER PROVINCE AND
STATED HIS CONCERN OVER LANDLORD-TENANT SQUABBLES IN THE
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MALAKAND-MARDAN AREA. I REMARKED THAT IT SEEMED TO BE AN

UNUSUAL SITUATION IN THAT THE NUMBER OF LANDLORDS INVOLVED SEEMED TO BE QUITE EQUAL TO THE NUMBER OF TENANTS, ADDING THAT IT MIGHT BE A MISTAKE IN THE SHORT-RUN TO ENCOURAGE THE TENANTS BEYOND WHAT LANDLORDS COULD REALISTICALLY GIVE. WE ALSO DISCUSSED THE POLITICAL SITUATION IN THE PUNJAB, DURING WHICH HE VOLUNTEERED INFORMATION THAT FORMER CHIEF MINISTER KHAR HAD NOT BEEN ARRESTED (WHICH WE SUSPECTED ALL THE TIME), BUT HAD DELIBERATELY PLANNED HIS OWN DISAPPEARANCE. HE SAID IT WAS YET ANOTHER EXAMPLE OF THE IMMATURITY OF KHAR. HE DID NOT SEEM AS CONCERNED OVER THE SITUATION AS I THOUGHT HE MIGHT, AS A MAJOR SPLIT IN THE PARTY IN THE PUNJAB COULD BE SERIOUS.

3. I MADE THE REMARK THAT HE HAD NOT BEEN AS FORCEFUL ON THE QUESTION OF U.S. MILITARY SUPPLY WITH THE WAR COLLEGE GROUP AS I HAD EXPECTED HE WOULD BE. HE REPLIED THAT HE HAD DELIBERATELY HELD BACK HIS STRONG FEELINGS ON THIS SUBJECT. HE SAID, AFTER ALL, YOU AND THE LEADERS OF YOUR GOVERNMENT KNOW THIS PROBLEM VERY WELL, AND IT WOULD HAVE BEEN PERSONALLY EMBARRASSING TO HIM TO APPEAR TO THIS LARGE GROUP AS A SUPPLICANT WHOSE NEEDS WERE NOT BEING MET.

4. OUR CONVERSATION TURNED TO DEBT RESCHEDULING. I TOLD HIM IT LOOKED LIKE PROGRESS WAS BEING MADE, BUT WAS CONCERNED THAT ALL THE NECESSARY PRELIMINARY WORK MIGHT NOT BE COMPLETED, INCLUDING AGREEMENTS IN BANGLADESH, TO ALLOW EVERYTHING TO BE COMPLETED BEFORE THE JUNE 30 DEADLINE. I TOLD HIM IN VERY ROUGH TERMS IT LOOKED TO ME THAT WHEN EVERYTHING WAS LUMPED TOGETHER THE RELIEF FIGURE MIGHT BE IN THE GENERAL RANGE OF DOUBLE THE AMOUNT OF THE ORIGINAL RELIEF LEVEL SET BY THE WORLD BANK. HE ASKED IF WE WOULD NOT RAISE IT TO ONE BILLION. I REPLIED THAT THIS WAS UNREALISTIC AND COMPLETELY OUT OF THE QUESTION. I ASKED THAT HE CONSIDER THIS MATTER IN ITS BROADEST TERMS BEFORE HIS DELEGATION GOES TO PARIS, AS FAILURE TO REACH AGREEMENT COULD TURN OUT IN THE END TO BE A MINOR DISASTER. I SAID THERE WAS CERTAINLY SOME FIXED FIGURE BEYOND WHICH THE CONSORTIUM JUST COULD NOT GO. IF PAKISTAN INSISTED ON

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A FIGURE BEYOND THAT, RESULTING IN DISAGREEMENT, IT WOULD CERTAINLY LEAVE THE DECISION-MAKERS IN THE CONSORTIUM CAPITALS IN A VERY GRUMPY MOOD. THIS FACT, PLUS THE SITUATION THAT WOULD BE CREATED IF PAKISTAN OPTED FOR A DEBT MORATORIUM, WOULD WITHOUT DOUBT AFFECT FUTURE LENDING TO PAKISTAN AS WELL AS BILATERAL ASSISTANCE. BHUTTO INTICATED THAT HE KNEW A GREAT DEAL WAS INVOLVED AFFECTING PAKISTAN'S FUTURE, AND AGAIN EXPRESSED HOPE

FOR VERY GENEROUS TREATMENT. I SAID IN MY VIEW THAT WOULD BE FORTHCOMING, BUT CAUTIONED AGAIN THAT HE TRY TO KEEP SEPARATED IN HIS OWN MIND THE DEBT RESCHEDULING PROBLEM, AND MORE RECENT DIFFICULTIES FACED BY PAKISTAN OVER RISING PRICES, ETC. HE SAID HE GOT THE POINT, BUT IT WAS RATHER HARD TO SO ISOLATE VARIOUS SEGMENTS OF PAKISTAN'S CURRENT PROBLEMS.

5. THERE WAS A BRIEF GENERAL CONVERSATION ON THE ROLE THAT PRIVATE INVESTMENT COULD PLAY IN PAKISTAN AS THIS HAD BEEN THE LAST QUESTION ASKED HIM BY A WAR COLLEGE STUDENT, AND I DID NOT THINK HIS REPLY WENT QUITE FAR ENOUGH. HE MADE THE POINT THAT HE HOPED SETTLING THE DEBT PROBLEM WOULD MAKE THE CLIMATE MORE CONDUCIVE FOR PRIVATE INVESTORS. I SAID THAT IT COULD INDEED, BUT THOUGHT THE INVESTMENT CLIMATE LOCALLY ALSO NEEDED TO BE WATCHED VERY CAREFULLY. I GAVE ONLY ONE SPECIFIC EXAMPLE, I.E., THE EXTREMELY DIFFICULT POSITION THAT BOTH ESSO AND HERCULES WERE NOW IN OVER THE ARTIFICIALLY LOW PRICE OF UREA. I TOLD HIM I HOPED HIS FINANCE MINISTER WOULD TAKE QUICK ACTION ON THEIR LONG STANDING PETITION FOR A PRICE INCREASE. I SAID THINGS HAD REACHED THE POINT WHERE ATTITUDES IN HOME OFFICES WERE BEING AFFECTED, AND I DID NOT WANT TO SEE THIS DISCOURAGE OTHER POTENTIAL INVESTORS SUCH AS U.S. STEEL. I SAID I THOUGHT THE PROBLEM WAS OF SUFFICIENT MAGNITUDE TO BRING TO HIM PERSONALLY, IN SOME DETAIL, IF SOLUTION WAS NOT OTHERWISE REACHED SOON. HE SAID HE WOULD GET MORE INTO THE MATTER.

6. THERE WAS A QUESTION AND ANSWER WITH THE WAR COLLEGE GROUP ABOUT THE ECONOMIC SITUATION IN INDIA IN WHICH BHUTTO TOOK THE POSITION THAT SUCH TROUBLES IN INDIA WOULD NOT BE IN ANY WAY GOOD FOR PAKISTAN, NOR INDEED THE ENTIRE SUB-CONFIDENTIAL

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CONTINENT. WE TALKED ABOUT THIS A BIT AND GOT BACK TO A GENERAL DISCUSSION OF PUBLIC VERSUS PRIVATE SECTOR, AND POLICIES OF PUBLIC SECTOR. I MADE POINT THAT IT MIGHT NOT BE A BAD IDEA FOR HIM TO PICK AN EXPERT TEAM TO STUDY THE MISTAKES THAT INDIA HERSELF HAD MADE WHICH MAKES THEIR PRESENT PLIGHT MORE SERIOUS. THIS WAS RATHER POINTED, AS PAKISTAN IS MAKING, OR SEEMS HEADED TOWARDS MAKING SOME OF THESE SAME MISTAKES AND THE INFERENCE WAS OBVIOUS. HE TOOK IT WELL AND SAID IT SOUNDED LIKE A GOOD IDEA. HIS FOLLOW-UP ON SOME OF OUR PAST TALKS HAS SURPRISED ME. DOUBT THAT HE WILL BUY THIS ONE, BUT YOU NEVER CAN TELL.

BYROADE

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